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Submission

Nat'l Farmers Un.

1970

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to the Canada. Parliament

House of Commons Committee
on
Standing Committee on Finance, Trade & Economic Affairs

April 15, 1970

1. The National Farmers Union accepts the opportunity of presenting its views on the White Paper on Taxation of November 7th last, with particular emphasis on the manner in which some of these proposals on tax reform will affect farm people.

Farming - An Exploited Industry

2. We believe there are several important factors which distinguish the farming industry from other forms of productive enterprize in Canada.

3. The emphasis of our national agricultural policy has been to draw farm people from the land into the industrial centres of the nation. In this respect, Canadian objectives have not varied appreciably from those of other nations whose goals have been to progress from agricultural to industrial status.

4. Farmers and farming have long been discriminated against in this country in such a way as to hasten the exodus from the land. Low and unstable prices for farm products have at best returned a low return on the farmer's labour and invested capital. The variable level of cash return to the farmer, a highly imperfect market condition over which he has little

or no control and the unpredictable vagaries of nature have all contributed toward a situation which has encouraged movement out of farming.

5. Further, the farmer has not been able to compete successfully with the industrial sector in the payment of farm wages. Much of farm work is seasonal. In recent years, the farm labour shortage has often proven critical.

6. As an industry, farming was long discriminated against by law in offering to employees such benefits as workmen's compensation or unemployment insurance. Pension plans, too, were available in the industrial sector long before the introduction of the Canada Pension Plan which today is applicable to farmers and many farm workers. The farmer has long suffered discrimination and exploitation in this country.

Changes in the Organization of Farming

7. As a consequence of these various conditions and circumstances, the farmer has been forced to reinvest large amounts of his earnings from the sale of his products back into the productive plant of his farm. By replacing labour with capital in the form of increased mechanization and expanded land holdings, the farmer has expanded his productive efficiency.

8. In this sense, he has received the generous encouragement of government through lending programs which, in turn, contributed toward rising inflation in land prices but has unquestionably contributed greatly toward the rehabilitation or retirement funds of those farmers who liquidated their land holdings. In this sense, many of those farmers remaining in farming today have made a great social contribution to the nation.

9. Nonetheless the principle has long ago been established. The displaced farmer, often with few assets, regarded his land holdings as his retirement

pension fund. Similarly, the present day farmer has been forced by economic circumstances to reinvest his cash assets in order to maintain his levels of efficiency and productivity in the race against rising inflation and narrower margins of return on each unit of output.

10. As his non-liquid assets have increased, his options and opportunities to liquidate diminish. He has been forced into a savings trap from which escape becomes more difficult. His pension fund has become "locked in".

The Impact of the Estates Tax

11. While reference is made to the farmer's equity in his farm as being his "pension fund", it is a fact that the entire farm family has a stake in the success of a farm operation and in thousands of instances unpaid family labor makes a substantial contribution to the capital worth of a farm.

12. In innumerable cases at least one and sometimes two or more sons may follow a father in taking over the operation of a farm while other members of the family seek occupations and professions elsewhere. The operation of the farm may continue undisturbed while contributing toward the support of the retired parents.

13. We believe this to be an ideal situation in perpetuating the concept of a family-farm-based [redacted] food production industry.

14. The Estates Tax introduced in October, 1968, makes it extremely difficult to maintain such family units as viable and efficient farm units. Farm operations of $100,000 value are now common. The Estates tax on an operation of this size is $15,600; $32,700 on $160,000, and so upwards until a tax of $89,200 on $300,000 plus 50% on the excess is reached.

15. As has been stated previously, during his lifetime a farmer is

frequently cash short. The implication to a family upon the death of a father is liquidation of a portion of a viable farm unit in order to settle the Estates tax.

16. The seriousness of the problem in the maintenance of a family farm unit of this tax has already been recognized by the Alberta and Saskatchewan governments who are making refunds to estates of the provincial share of this tax.

Gift Tax and Capital Gains Tax

17. The White Paper, it appears, has anticipated the possible impact on the federal government's Estate tax fortunes if too generous a Gift tax exemption were allowed. In the context of maintaining a viable farm unit, the $10,000 once-in-a-lifetime gift provision is, in our view, inadequate and should be increased to at least $50,000.

18. While the current Estates tax and proposed Gift tax provisions in themselves present serious problems to the future maintenance of second generation farm units, the Capital Gains tax will certainly assist in further disinheriting the farm family.

19. A partial sale of farm property may be required to settle the Estates tax. Unless the farm then continues to be operated as an estate by a remaining son, the impact of the Capital Gains tax may come into play. In circumstances where other members of a family demand settlement of an estate upon the death of a parent or parents, the son remaining on the farm will become the purchaser of the farm from the estate. The members of the estate (including the son) then become liable for the payment of the Capital Gains tax.

20. If such a transaction takes place ten or even twenty years from the day of valuation, the Capital Gains tax in such a situation might be substantial, requiring the family purchaser to pay tax on the land he purchases to the extent of his share of the estate.

21. A further factor related to the valuation of farm land for the future assessment of a Capital Gains tax is the fluctuating price levels which can and do prevail in the sale of farm lands. Market values are at best imperfect. Economic and market conditions play key roles. Government policies relative to commodity supports and credit are further important factors.

22. An outstanding example at present is farming land in much of the prairie region. Few sales in farm land are taking place because of adverse market conditions. The farmer is truly "locked in". He cannot market grain and he cannot liquidate without substantial sacrifice.

23. Valuation today is certainly a far cry from valuation of three years ago. Valuation three years hence may be another matter, and on a present-day valuation, the "capital gain" of ten years hence might be extreme.

24. For the various reasons outlined above, we urge abandonment of a Capital Gains concept in the transfer and sale of farm property.

Capital Gains Tax on Recaptured Depreciation

25. The introduction of a Capital Gains tax to the recapture of depreciation deserves careful examination. Such a tax will render the straight line depreciation method less useful to the farmer than under the present method of taxation.

26. An outstanding example might be in the manner in which a Capital Gains tax might apply in the trade-in by a farmer of an old farm implement for a new one.

27. The trade-in allowance offered by farm machinery companies is almost always greater on an old machine than its depreciated value and occasionally even greater than its original purchase value.

28. It is a well known fact that farm machinery companies price their products and sell them like Arab rug peddlers. Any resemblance between the list price of a farm machine and its real value is non-existent.

29. It is ludicrous to suggest the farmer be taxed on a so-called "capital gain" of such a transaction. The pricing practices of farm implement companies as they presently are conducted first require drastic overhaul and standardization of true value pricing.

30. Without changes in the merchandizing tactics of farm implement companies, the farmer would be required to pay a capital gains tax on a purely illusionary gain. It would make it difficult for them to maintain and modernize their farm machinery.

Taxation, Middle Income Farmer

31. As is the case in other similar income levels in other occupations and professions, the middle income farmer with taxable revenue from $10,000 to $25,000 will bear a disproportionate rate of taxation to the higher income groups. One justification advanced for this proposal is the assumption that higher income earners invest greater amounts of risk capital.

32. We respectfully point out that all of a farmer's assets are a form of risk capital. The inability to determine production levels because of weather or government policy, imperfect market conditions, declining farm prices and rising farm costs make farming a total risk proposition at all levels.

33. A more equitable rate of taxation for middle income farmers is therefore fully justified.

Other Aspects of the White Paper

34. Not all aspects of the White Paper are regarded as detrimental to farmers.

35. We urge retention of the cash basis of accounting by the farmer as promised by the White Paper.

36. The retention of the averaging provision is similarly welcomed.

37. We do not anticipate any great cause for concern in changes to the concept of the "basic herd" provisions.

Conclusion

The recommendations we have advanced in this submission reflect our genuine concern over the future of the farming industry in Canada. We respectfully suggest that under the combined effects of the present Estates tax and the proposed Gift tax and Capital Gains tax provisions outlined in the White Paper, the family farm as we know it cannot long survive in the hostile climate for transition to succeeding generations which will be created.

32. Your careful consideration of our views is requested.

All of which is respectfully submitted by

THE NATIONAL FARMERS UNION.

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